

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00

FMC-01 INR-07 NSAE-00 SAL-01 CG-00 DLOS-04 OES-06 L-03

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R 291400Z APR 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 5281

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 3657

FOLLOWING TELEGRAM WAS DRAFTED BY AMCONGEN RIO, EMBASSY CONCURS.

E.O. 11652: N/A

TAGS: EWWT, BR

SUBJECT: SHIPPING: BRAZILIAN FLAG OVERCARRIAGE IN NORTHBOUND
TRAFFIC TO U.S.

REF: BRASILIA 2937

SUMMARY. MOOREMACK OFFICIALS STATE THAT NETUMAR AND LLOYD
BRASILEIRO ARE NORTHBOUND POOL OVERCARRIERS. LARGE AMOUNTS
INVOLVED LEAD MOOREMACK TO FEAR THAT NETUMAR, ESPECIALLY, MAY
ATTEMPT TO RENEGE IN MAKING COMPENSATION. SITUATION IS EXCERBATED
BY DECLINING TRAFFIC CAUSING SHIPPING LINES TO COMPETE AGGRES-
SIVELY AND BRAZILIAN EXPORT INCENTIVE LEGISLATION. AN ATTEMPT IS
BEING MADE TO MAKE IT MORE EXPENSIVE FOR LINES TO OVERCARRY
WHICH, HOPEFULLY, WILL REDUCE PRESENT INBALANCE. MOOREMACK STILL
CONSIDERS AN EQUAL ACCESS AGREEMENT AS THE ULTIMATE SOLUTION
FOR NORTHBOUND TRAFFIC. THEY WOULD LIKE TO SEE THIS SUBJECT OR
ISSUE OF IMPACT OF EXPORT INCENTIVES ON OCEAN FREIGHT MADE PART
OF SIMON-SIMONSEN TALKS. END SUMMARY.

1. CONGEN RIO OFFICER MET WITH MOOREMACK OFFICIALS APRIL 22 TO
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DISCUSS QUESTION OF NORTHBOUND POOL OVERCARRIAGE BY BRAZILIAN

FLAG LINES.

2. MOOREMACK OFFICIALS CORROBORATED INFORMATION EMBASSY OBTAINED THROUGH CONGEN SAO PAULO. ACCORDING TO MOOREMACK, NETUMAR AND LLOYD BRASILEIRO ARE POOL OVERCARRIERS TO THE EXTENT OF US\$ 385,000. OF THIS AMOUNT, NETUMAR OWES THE LION'S SHARE OF NEARLY US\$320,000. PROJECTED ON AN ANNUAL BASIS, PRESENT TRENDS WOULD INDICATE THAT NETUMAR WOULD OWE NEARLY US\$2 MILLION AND LLOYD SOME US\$500,000 TO MOOREMACK AT END OF YEAR. MOOREMACK OFFICIALS STATE THAT THESE SUMS ARE FAR TOO HIGH AND MAY CAUSE NETUMAR, ESPECIALLY, TO AVOID COMPENSATING MOOREMACK. NETUMAR WOULD PRESUMABLY SEEK SUPPORT OF SUNAMAM IN THIS ATTEMPT, PROTESTING THAT THEY COULD NOT AFFORD TO PAY COMPENSATION OF THIS MAGNITUDE.

3. MOOREMACK OFFICIALS EXPLAINED THAT SHIPPING LINES ARE BEGINNING TO COMPETE AGGRESSIVELY FOR DIMINISHING TRAFFIC. THEY BELIEVE NETUMAR (AND LLOYD) ARE HLDJFTIPO TO OBTAIN MORE BUSINESS. MOREOVER, THEY STATE THAT GGB EXPORT INCENTIVES (SEE REFTTEL) ARE BECOMING AN INCREASINGLY IMPORTANT FACTOR IN A SHIPPER'S DECISION TO CHOOSE A BRAZILIAN FLAG LINE.

4. MOOREMACK AND LLOYD ARE BEGINNING TO APPLY PRESSURE TO INDUCE NETUMAR TO REDUCE ITS OVERCARRIAGE. MOOREMACK OFFICIALS STATED THAT ONE OF THE PRINCIPAL CAUSES OF THE OVERCARRIAGE IS THE MANNER IN WHICH THE NORTHBOUND POOL CALCULATES THE COMPENSATION FOR CONTAINER CARGO. EXTENSIVELY, THIS CARGO IS DIVIDED 40-40-20, REFLECTING THE SHARES OF NATIONAL AND THIRD FLAG LINES. HOWEVER, THIRD FLAG LINES CARRY NO CONTAINER TRAFFIC AND FOR THIS TYPE OF CARGO THE DIVISION IS SUPPOSED TO BE 50-(MOOREMACK), 25-25-(NETUMAR AND LLOYD). IN COMPUTING OVERCARRIAGE, HOWEVER, THERE IS A 30 PERCENT DEDUCTION WHICH IS SUPPOSED TO REFLECT IN SOME WAY THE SHARE OF THE THIRD FLAG CARRIERS. THUS, IT IS ADVANTAGEOUS TO OVERCARRY CONTAINER TRAFFIC (IF ONE WANTS TO OVERCARRY) AS THE INITIAL 30 PERCENT CAN BE SKIMMED OFF THE TOP. MOOREMACK OFFICIALS STATE FURTHER THAT THEIR PRESENT SHARE OF CONTAINER TRAFFIC HAS DROPPED TO BELOW 20 PERCENT WHILE NETUMAR'S HAS GONE OVER 50. LLOYD AND MOOREMACK ARE ATTEMPTING TO LOWER THE 30 PERCENT DEDUCTION TO 15, MAKING IT MORE ONEROUS TO OVERCARRY THIS TRAFFIC. MOOREMACK CLAIMS THAT THIS REDUCTION HAS RECEIVED SUNAMAM APPROVAL AND NETUMAR MUST AGREE TO IT.

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5. REDUCING THE ABOVE DEDUCTION BY HALF MAY CAUSE NETUMAR TO DESIST IN ITS EFFORTS TO CARRY MORE CONTAINERS. IT MAY ALSO SUBSTANTIALLY INCREASE THE AMOUNT OF COMPENSATION OWED MOOREMACK, IF TRAFFIC FLOWS REMAIN THE SAME, AND THE DANGER THAT NETUMAR MAY SEEK TO RENEGE.

6. COMMENT: MOOREMACK OFFICIALS LEAVE LITTLE DOUBT THAT THE

ULTIMATE SOLUTION TO THE IMBALANCE IN THE NORTHBOUND TRADE IS AN EQUAL ACCESS AGREEMENT. THERE IS A FUNDAMENTAL INCONSISTENCY BETWEEN A POOLING ARRANGEMENT AND EXPORT INCENTIVES WHICH ENCOURAGE USE OF ONLY ONE NATIONAL FLAG LINE. CONSEQUENTLY, IN ORDER FOR A NORTHBOUND EQUAL ACCESS TO FUNCTION EFFECTIVELY, EXPORT INCENTIVES ON FREIGHT MUST EITHER BE EXTENDED TO BOTH US AND BRAZILIAN NATIONAL FLAG CARRIERS OR ELIMINATED. AS WE SEE IT, THE FORMER IS A MORE LIKELY PROPOSITION AS THE LATTER WOULD HAVE TRADE DISTORTING EFFECTS, I.E., IT WOULD BE MORE PROFITABLE TO SHIP TO EUROPE AND ELSEWHERE RATHER THAN THE US.

7. MOOREMACK OFFICIALS ALSO TOLD CONGEN RIO OFFICERS THAT THEIR PRINCIPALS IN US MAY BE GETTING IN TOUCH WITH US REASURY, EITHER DIRECTLY OR THROUGH FMC. APPARENTLY THEY HOPE THAT THE ISSUE OF EXPORT INCENTIVES AS IT AFFECTS OCEAN FREIGHT WOULD BE INCLUDED AS A TOPIC FOR SIMON-SIMONSEN DISCUSSIONS.
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